

Message Text

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INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

AMEMBASSY GABORONE

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SUBJECT: SOUTH AFRICAN ECONOMIC PROSPECTS FOR 1975.

1. QUOTED BELOW IS THE INTRODUCTORY CHAPTER OF " PROSPECTS FOR 1975", JUST PUBLISHED BY THE RESPECTED BUREAU FOR ECONOMIC RESEARCH OF THE UNIVERSITY OF STELLENBOSCH.

QTE 1. PRESENT ECONOMIC SITUATION

THE FOLLOWING ARE SALIENT FEATURES OF THE SOUTH AFRICAN ECONOMY AT PRESENT:

-INDICATIONS THAT THE TOP OF THE BUSINESS CYCLE HAS BEEN REACHED AND THAT THE ECONOMY IS ENTERING A PHASE OF SLOWER GROWTH;

-PROGRESSIVELY ACCELERATING INFLATION;

-SIGNS OF AN IMPROVEMENT IN THE BALANCE OF PAYMENTS;

- VERY HIGH INTEREST RATES IN THE MONEY MARKET IN SPITE OF SLIGHTLY EASIER CONDITIONS;

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-TIGHT CAPITAL-MARKET CONDITIONS;

- A CAUTIOUS, HESITANT AND UNCERTAIN ATTITUDE ON THE PART OF BUSINESSMEN; IN CONTRAST WITH A STRONGLY POSITIVE MOOD ON THE PART OF CONSUMERS; AND
- A GREATER EMPHASIS OF POLICY-MAKERS ON THZ COMBATING OF INFLATION THAN ON STIMULATING GROWTH.

2. PROSPECTS FOR 1975.

(I) ECONOMIC GROWTH

IN 1973 THE REAL G.D.P. GROWTH RATE WAS 4,1 PER CENT. FOR 1974 A GROWTH OF 7 PER CENT IN THE REAL G.D.P. IS ESTIMATED. WE FORECAST A GROWTH RATE OF 3,4 PER CENT FOR 1975. THE LOWER GROWTH RATE WAS MAINLY THE RESULTS OF DOWNWARD TRENDS IN THE CONTRIBUTIONS OF AGRICULTURE AND MINING. IN THE REST OF THE ECONOMY THERE WILL BE A MODERATE DECLINE IN THE REAL GROWTH RATE TO 5 PER CENT IN 1975, AS COMPARED WITH BETWEEN 5,5 AND 6 PER CENT THIS YEAR. AFTER ABOUT FOUR QUARTERS OF SLOWER GROWTH WE EXPECT A REVIVAL FROM THE THIRD QUARTER OF 1975 ONWARDS.

(II) LABOUR

SKILLED LABOUR IS VERY SCARCE. THIS POSITION WILL BECOME EASIER AS THE ECONOMY GROWS MORE SLOWLY. GREATER USE OF NON-WHITES AS SKILLED WORKERS WILL HELP TO ALLEVIATE THE SHORTAGE.

(III) PERSONAL INCOME AND EXPENDITURE

THE WAGE AND SALARY BILL WILL INCREASE BY 14 PER CENT (R 1 600 MILLION) IN 1975, AS AGAINST 16 PER CENT IN 1974. NON-WHITE WAGES WILL CONTINUE TO RISE MORE RAPIDLY THAN WHITE REMUNERATION. IN 1975 INCOME FROM AGRICULTURE WILL NOT MAKE AS LARGE A CONTRIBUTION TO DISPOSABLE PERSONAL INCOME AS IT DID THIS YEAR. FOLLOWING UPON AN INCREASE OF 18,5 PER CENT AT CURRENT PRICE IN 1974 (BETWEEN 6 AND 6,5 PER CENT IN REAL TERMS), THE VALUE OF PRIVATE CONSUMPTION EXPENDITURE WILL INCREASE BY 15 PER CENT IN 1975 (BETWEEN 4,5 AND 5 PER CENT IN VOLUME). DURING THE PERIOD COVERED BY THE FORECAST CONSUMPTION EXPENDITURE ON DURABLE GOODS WILL BE LOW, WHILE EXPENDITURE ON FOODSTUFFS, LIQUOR, TOBACCO, CLOTHING AND FOOTWEAR WILL SHOW ABOVE-AVERAGE INCREASES.

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THERE WILL BE A FURTHER DECLINE IN THE PERCENTAGE OF AFTERTAX INCOME THAT IS SAED.

(IV) INVESTMENT

IN 1974 FIXED INVESTMENT WILL INCREASE TWICE AS FAST AS IT DID IN 1973, BUT IN 1975 IT WILL SLACKEN OFF, THOUGH NOT TO THE EXTENT THAT THE DECLINE IN THE GROWTH RATE MIGHT LEAD ONE TO EXPECT.

AFTER THE HEAVY BUILD-UP IN 1974, THERE WILL BE COMPARATIVELY LITTLE STOCK-PILING IN 1975.

(V) BALANCE OF PAYMENTS

FOR 1974 WE ESTIMATE A DEFICIT OF BETWEEN R250 MILLION AND R300 MILLION. A SURPLUS OF R 100 MILLION ON CURRENT ACCOUNT IS EXPECTED FOR 1975.

AFTER AN ESTIMATED 49 PER CENT RISE IN IMPORTS IN 1974. WE EXPECT THIS INCREASE TO BE ONLY 4,5 PER CENT IN 1975. OUR INFORMED GUESS FOR 1975 IS A NET CAPITAL INFLOW OF APPROXIMATELY R400 MILLION, AS AGAINST R 300 MILLION TO R 350 MILLION FOR THIS YEAR. CONSEQUENTLY THERE MAY BE A MARKED INCREASE IN GOLD AND FOREIGN EXCHANGE RESERVES.

(VI) THE MONEY MARKET

IN SPITE OF A FEW DIFFICULT MONTH-ENDS AHEAD, THERE WILL ON BALANCE BE A FURTHER EASING IN SHORT-TERM INTEREST RATES. FROM THE SECOND QUARTER ONWARDS THIS MOVEMENT WILL BE STRENGTHENED, WITH A RESULTANT GREATER EASING IN THE MONEY MARKET. LATER IN 1975 A GENERAL TREND TOWARD TIGHTER CONDITIONS MAY AGAIN EMERGE.

(VII) THE CAPITAL MARKET.

CAPITAL-MARKET INTEREST RATES ARE PROBABLY NEAR TO A PEAK LEVEL AT THE MOMENT. MONOTONIC DECLINES WILL OCCUR DURING THE FIRST HALF OF 1974. FOR BUILDING SOCIETIES WE FORESEE A RELATIVELY DIFFICULT YEAR IN 1975. IT SEEMS POSSIBLE THAT SHARE PRICES WILL RISE OVER A FAIRLY BROAD FRONT, BUT NOT SO STRONGLY AND CONSTANTLY THAT IT WILL BE POSSIBLE FOR THE JOHANNESBURG STOCK EXCHANGE TO FOSTER THE MOBILIZATION OF LARGE AMOUNT OF RISK CAPITAL.

(VIII) PRICES

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CONSUMER PRICES ARE EXPECTED TO RISE BY A 10 PER CENT IN 1975, COMPARED WITH AN ESTIMATED AVERAGE INCREASE OF 11,5 PER CENT IN 1974.

2. COMMENTS:

(A) BER STELLENBOSCH MADE FOLLOWING ASSUMPTIONS FOR FORECAST:

1) AVERAGE GOLD PRICE IN 1975 SHOULD BE \$175.00.

2) AGRICULTURAL CONDITIONS NORMAL, I.E. SLIGHT DECLINE FROM EXCELLENT 1974 CONDITIONS.

3) NO DRAMATIC CHANGE IN POLITICAL CONDITIONS.

4) PRAGMATIC ADJUSTMENTS IN DOMESTIC SOCIO POLITICAL
PATTERNS OF DEVELOPMENT AS IN PAST YEARS.

(B) PRESTIGE OF STELLENBOSCH UNIVERSITY IN SAG OFFICIAL
CIRCLES MAKES THIS ANNUAL FORECAST A DOCUMENT WORTH CLOSE
STUDY. ASSUMPTIONS UNDERLYING FORECAST, CITED ABOVE, STRIKE
US AS REASONABLE.
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